

MISSOURI DEPARTMENT OF ECONOMIC DEVELOPMENT

DIVISION OF CREDIT UNIONS

NEWSLETTER

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LIQUIDITY vs. CASH

In preparing for the needs of Year 2000, each credit union has developed a liquidity plan. For those credit unions that have never dealt in cash, there will be no impact on currency needs. However, for those whose members expect their credit union to provide additional funds prior to year-end, planning is needed.

Some credit unions will be increasing their cash on hand as early as August 1999. Most plans call for increased currency during late fall – October/November. Each credit union has been building *liquidity* for the past year in anticipation of additional share withdrawals and/or check clearings. However, the question remains as to whether sufficient planning has been made to convert *liquidity* to readily available *cash*.

Although a credit union has a sound liquidity plan and arrangements have been made with a delivery service to provide increased deliveries during the end of the year, a cash shortage could still occur. At present, an order for cash made on Monday is routinely delivered on Wednesday. If member withdrawals of cash exceed the anticipated level, actual currency could be needed although ample liquidity exists. For example, adequate funds could be available in the Overnight account at Missouri Corporate Credit Union. However, because of the delay between an order for cash and actual delivery, members who enter the credit union on Monday for a cash withdrawal may have to be told that they cannot have their desired currency until Wednesday. This could create a panic among members and could cause a run on the credit union.

Several alternatives exist, but each credit union needs to make plans now. Credit unions may wish to make arrangements with each other to provide reciprocal cash arrangements. That is,

credit unions in the same locality may wish to enter into a contract that they will provide cash to each other if one is in need of currency and the other has excess. Still other alternatives exist, especially in rural communities. The local grocery store may have excess cash as members purchase additional supplies prior to year-end. The same may be true of hardware stores. While delivery may still be a concern, credit unions also may wish to determine the bondability of employees transporting cash as an alternative to standard delivery services. Off-duty police may also be an alternative for delivery if the credit union bond will cover their services.

Each credit union needs to develop and/or review their **cash** plan. The timely conversion and delivery of liquidity into actual cash will be essential to successful entry into the Year 2000.

COMMENTS ON PROPOSED RULES

The comment period for the proposed rules published in the Missouri Register on August 2, 1999 expired on September 1, 1999. During the comment period six comments were received. Four comments were submitted by credit unions, two by trade associations, one association representing credit unions and one representing banks. The credit union commission prior to an order of rulemaking being filed will consider these comments.

APPLICATIONS FOR FIELD OF MEMBERSHIP EXPANSION

Emergency rules adopted by the Credit Union Commission, effective July 12, 1999, restore to the Division the authority to act on field of membership expansion requests. Following that date four applications have been received. All four applications have been returned, as incomplete, to the applying credit unions, along

with guidance for revisions to be made prior to resubmitting the applications.

Credit unions and the Division must now comply with numerous new documentation and procedural requirements. Applications must be complete and include all required documentation. Sections 2 through 5 of the application identify the required documentation. Prior to sending the application to the Division of Credit Unions, credit unions should review the application for completeness and include all required documentation.

Although, the requirements of this legislation make the process for considering field of membership expansions more complicated and time consuming than in the past, The Division will attempt to act on applications as quickly as possible.

As credit unions and the Division become more familiar with the requirements of this legislation, we should be able to simplify the process. The Division is interested in any suggestions concerning how to simplify or otherwise improve this new process.

The application form may be also obtained by calling (573) 751-3419 or by visiting our web site <http://www.ecodev.state.mo.us/cu/>.

CREDIT UNION COMMISSION TO MEET SEPTEMBER 23, 1999

The Credit Union Commission has scheduled their next meeting for September 23rd at 10:30 A.M. in the Division of Credit Unions' office in Jefferson City. The August 5th scheduled meeting was canceled and rescheduled for September 23rd.

Comments received regarding the Commission's proposed field of membership rules published in the August 2nd edition of the Missouri Register will be discussed.

The Commission plans to meet each quarter on the first Thursday of the second month of each quarter. Future meetings are scheduled for November 4, 1999, February 3, 2000 and May 4, 2000. Meetings will begin at 10:30 AM.

SMALL CREDIT UNION PROGRAM (SCUP)

The National Credit Union Administration (NCUA) has restructured their program called "Small Credit Union Program (SCUP)". The purpose of the program is to provide mentoring, training and other technical assistance to small credit unions that need and request extra attention. Any request for assistance is voluntary on the part of the credit union and may cover any aspect of the credit union's operation or management. NCUA has trained examiner's to provide this assistance outside their regulatory role. The examiner assigned to help an individual credit union will not be the examiner assigned to the credit union. The assistance will not be in conjunction with an examination nor will the request for assistance be used as a part of any examination. This program is already being offered to federally chartered credit unions and is available to state chartered federally insured credit unions upon request.

Credit unions eligible for this program include: federally insured credit unions with assets under \$5 million; newly chartered credit unions (those which has been in existence 10 years or less and with assets under \$10 million); and all credit unions which have been designated as low-income as defined in NCUA's Rules and Regulations. Requests to participate in this program can be made through the Missouri Division of Credit Unions or NCUA.

MID YEAR 1999 PERFORMANCE

The performance of Missouri's credit unions during the first six months of 1999 was a mixed bag of results. Assets continued to increase at a rate surpassing the national average and membership increased to 1.77 million. Capital continued to decline to 10.9% of assets compared to the national average of 11.3%. Gross income was above average but so were expenses and cost of funds resulting in weaker than average earnings. Additionally the state had twenty-three credit unions that actually lost money during the period. Overall if your credit union is experiencing negative trends these should be reversed. Our examinations will be concentrating on management's response to these areas. For a complete report on Missouri

and National trends see our web site <http://www.ecodev.state.mo.us/cu/>.

	Missouri	All Credit Union's	Difference
Asset Growth	11.5%	9.4% annualized	(2.1%)
Capital/Assets	10.9%	11.3%	0.4%
Operating Expense/ Assets	3.6%	3.2%	(0.4%)
Deliq. Loans/ Total Loans	0.8%	0.8%	None
Return on Assets	0.8%	0.9%	(0.1%)
Loan Growth	10.7%	7.5%	3.2%

CAMEL EXPOSED

For the first time in many years the Division of Credit Unions is considering disclosing the component and overall CAMEL risk rating to the credit union at the conclusion of the examination. Your ideas and suggestions on facilitating the disclosure are requested. The CAMEL rating is a universal rating system used by most state and federal financial institution regulators. As a tool the system can have many uses **but should never be used solely for information purposes.** The reasons for a particular rating are far more meaningful than the rating itself. Currently we are contemplating disclosing only CAMEL ratings of 3 or less to avoid unnecessary effort in differentiating between 1's and 2's.

Please forward any comments you have on the above to this office by mail, phone, fax or e-mail. We will communicate further with the credit unions if and when we decide to implement this change.

FROM THE DIRECTOR

I continued to be excited about the diversity and depth of the credit union movement in Missouri. My visits to credit unions have been to some of the smallest and largest asset size credit unions.

Credit union efforts to serve the members regardless of their means is present in our credit unions. Recently I wrote the National Credit Union Administration's Board suggesting the proposal to impose a low-income member service requirement is not appropriate for federally insured state charted credit unions since many states have taken a different approach to serve low-income or under served areas. As an example, Missouri credit union statutes allow "other" field of membership credit unions to serve low-income or under served areas.

On another subject, It is important that field of membership expansion requests have the quality and documentation sufficient to support membership expansion. Additional communications regarding information and documentation required for a field of membership expansion applications will follow the Commission's adoption of final rules.

John P. Smith, Director